

# SRUUF: The Explosive Uranium Squeeze

Sep. 09, 2021 8:03 AM ET | **Sprott Physical Uranium Trust - Unit (SRUUF)** |  
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## Summary

- Uranium market has a major supply-demand imbalance of approximately 50 million pounds.
- Sprott Physical Uranium Trust Fund is accumulating a major percentage of annual supply as a way to boost uranium prices.
- The supply shortage could see uranium prices rise from \$40/lb to over \$60/lb with limited downside risks.



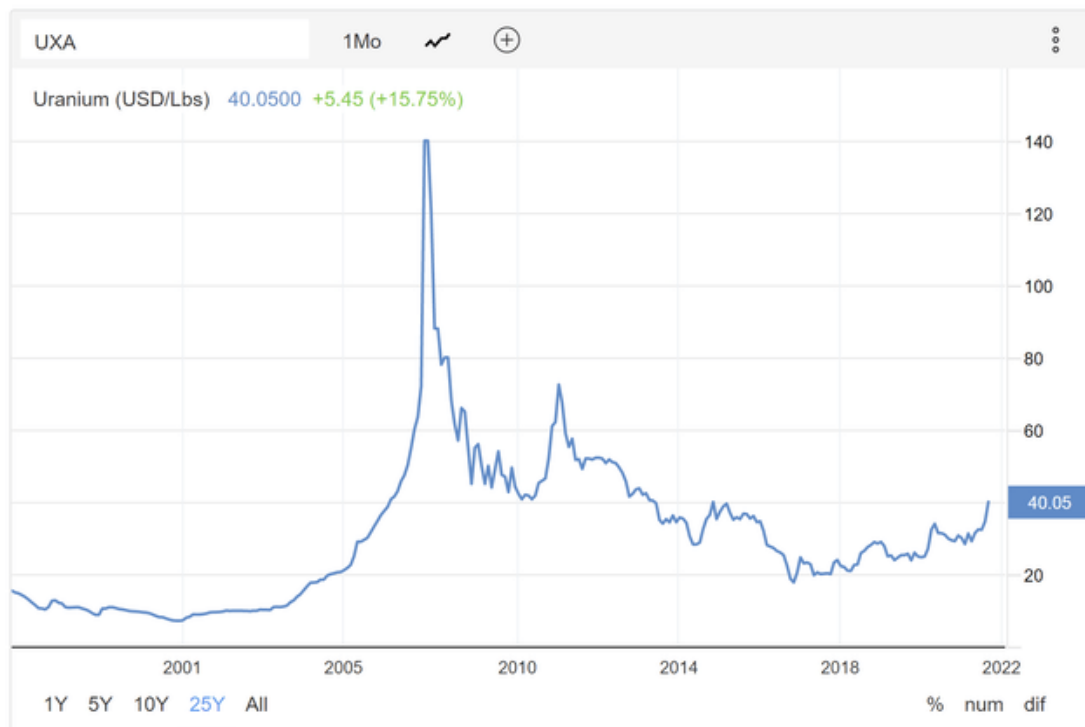
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Over the past two weeks the spot price of uranium has skyrocketed over 25% and hit a six-year high. The reason for the surge is that a new trading vehicle, the Sprott Physical Uranium Trust Fund ([OTCPK:SRUUF](#)), has been accumulating pounds of uranium at a torrid pace. This article will explain why this new trading vehicle should ignite a long-awaited multi-year bull market in the price of uranium.

## History of Uranium

Uranium is mainly used to fuel nuclear reactors. This input cost is roughly 4% of all operating costs for a nuclear reactor. Nuclear power [constitutes approximately 19%](#) of all power generated in the United States.

The Fukushima nuclear accident in March of 2011 resulted in a broad reduction of uranium demand. Japan took many nuclear reactors offline and countries such as Germany shut down nuclear reactors and [planned a phase out](#) of all nuclear reactors.



Source: [Trading Economics](#)

For almost a decade, the prices of uranium and uranium stocks were in the doldrums. The spot price of uranium languished in the mid-\$20 range over the last five years.

Spot Price					
	2017	2018	2019	2020	2021
Jan	24.50	21.88	28.90	24.63	29.63
Feb	23.00	21.38	28.00	24.80	27.98
Mar	23.88	21.05	25.33	27.35	30.95
Apr	22.63	21.00	25.20	33.25	28.90
May	19.60	22.73	24.05	33.93	31.40
Jun	20.15	22.65	24.60	32.80	32.25
Jul	20.20	25.78	25.38	32.45	32.40
Aug	20.13	26.30	25.30	30.85	34.25
Sep	20.33	27.50	25.68	29.93	-
Oct	20.08	27.95	24.25	29.70	-
Nov	23.13	29.10	26.05	29.68	-
Dec	22.32	27.75	24.93	30.20	-

Source: [Cameco](#)

It should be noted that uranium is primarily sold to utility companies via long-term contracts. Uranium is different in that the spot market is not really used for commercial transactions. The industry is opaque and contract prices are guarded.

For a decade, the price of uranium languished despite a favorable supply situation.

## Long-Term Supply

The total annual production of uranium from mines is approximately 130 million pounds. Another 30 million pounds are supplied from secondary sources including stockpiles of nuclear weapons. Kazatomprom of Kazakhstan and Cameco ([CCJ](#)) of Canada are the two major suppliers.

Production from mines (tonnes U)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Kazakhstan	17,803	19,451	21,317	22,451	23,127	23,607	24,586	23,321	21,705	22,808
Canada	9783	9145	8999	9331	9134	13,325	14,039	13,116	7001	6938
Australia	5900	5983	6991	6350	5001	5654	6315	5882	6517	6613
Namibia	4496	3258	4495	4323	3255	2993	3654	4224	5525	5476
Uzbekistan (est.)	2400	2500	2400	2400	2400	2385	2404	2404	2404	3500
Niger	4198	4351	4667	4518	4057	4116	3479	3449	2911	2983
Russia	3562	2993	2872	3135	2990	3055	3004	2917	2904	2911
China (est.)	827	885	1500	1500	1500	1616	1616	1885	1885	1885
Ukraine	850	890	960	922	926	1200	1005	550	1180	801
USA	1660	1537	1596	1792	1919	1256	1125	940	582	67
India (est.)	400	400	385	385	385	385	385	421	423	308
South Africa (est.)	583	582	465	531	573	393	490	308	346	346
Iran (est.)	0	0	0	0	0	38	0	40	71	71
Pakistan (est.)	45	45	45	45	45	45	45	45	45	45
Czech Republic	254	229	228	215	193	155	138	0	0	0
Romania	77	77	90	77	77	77	50	0	0	0
Brazil	148	265	326	192	55	40	44	0	0	0
France	7	6	3	5	3	2	0	0	0	0
Germany	8	51	50	27	33	0	0	0	0	0
Malawi	670	846	1101	1132	369	0	0	0	0	0
<b>Total world</b>	<b>53,671</b>	<b>53,493</b>	<b>58,493</b>	<b>59,331</b>	<b>56,041</b>	<b>60,304</b>	<b>62,379</b>	<b>59,462</b>	<b>53,498</b>	<b>54,752</b>
tonnes U <sub>3</sub> O <sub>8</sub>	63,291	63,082	68,974	69,966	66,087	71,113	73,560	70,120	63,087	64,566
% of world demand	84%	87%	94%	91%	85%	98%	96%	93%	80%	81%

\* Data from the World Nuclear Association. NB: the figures in this table are liable to change as new data becomes available.

Source: [World Nuclear Association](#)

The price of uranium has been so low that major mines have been idled. For example, Cameco has [four idle mines](#) including the giant McArthur River mine because the price of uranium has made mining uneconomical. Many in the industry believe that the marginal cost of production is over \$60/lb. Thus, it is not expected that idle mines will be restarted until the price of uranium is much higher.

## **Long-Term Demand**

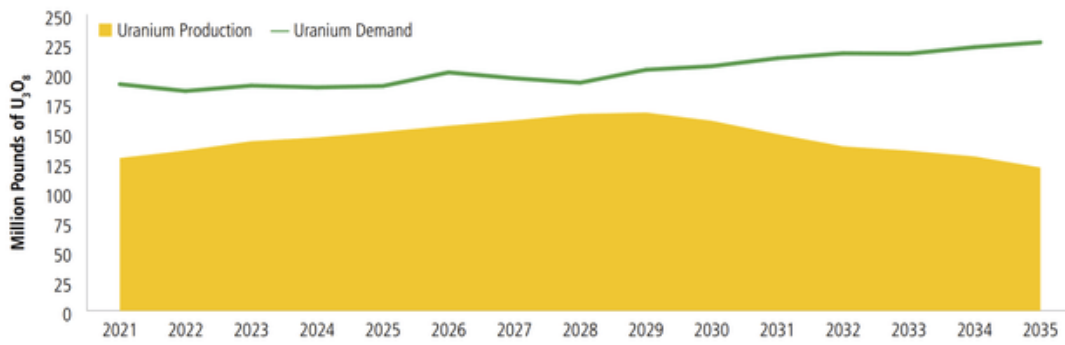
Over the last decade, the sentiment towards nuclear power was decidedly negative in the Western world. For example, New York state [closed the Indian Point Energy Center](#) on April 30, 2021. Germany has already started phasing out nuclear power. In 2000, nuclear power was 29.5% of all power generation in Germany. By 2020, nuclear power only represented 11.4% of power generation. By 2022, Germany plans to phase out all nuclear power.

However, the emerging world is counting on nuclear power. Both China and India are adding nuclear reactors. There are approximately 51 nuclear reactors being constructed in 16 different countries. Currently, there are approximately 444 operating nuclear reactors.

## **Supply-Demand Imbalance**

For several years, there has been a huge deficit that has been plugged with above ground stockpiles. The price has been so low that miners have idled mines, exploration budgets have been slashed and capital has fled the sector. This dynamic has created a long-term supply imbalance. Importantly, the supply-demand imbalance is expected to persist for most of the decade.

### Production & Demand Imbalance Likely to Grow



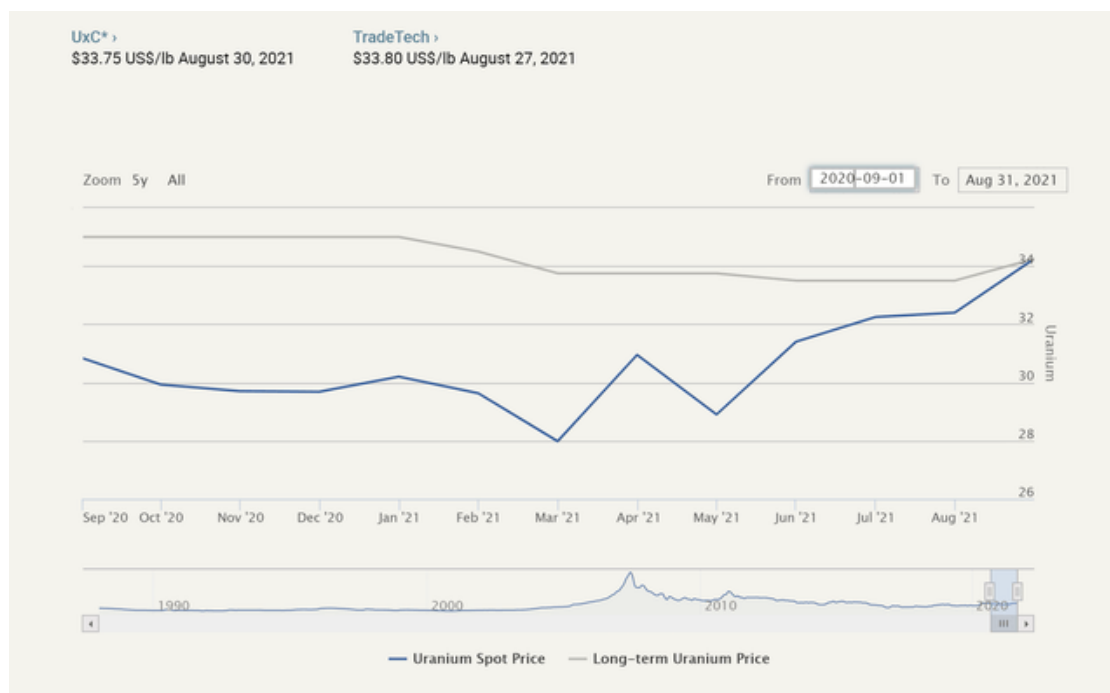
Source: UxC LLC.

Source: UxC

The price of uranium has been so low that the largest supplier of uranium, Kazatomprom, has been buying uranium in the spot market in order to satisfy long-term commitments. Kazatomprom [announced](#) that they plan to maintain 2023 uranium production at a similar level to 2022. This would remove another 10 million pounds from the global supply picture.

## Enter Sprott Physical Uranium Trust

On August 13, 2021, a revised uranium trading vehicle was launched. The Sprott Physical Uranium Trust is designed to purchase and store physical uranium. It is no different than the silver and gold trusts that were launched over a decade ago.



Source: [Cameco](#)

Since launching the closed end trust less than a month ago, SRUUF has already acquired 24 million pounds of uranium. On some days, SRUUF has acquired more than 500,000 pounds of uranium. Acquiring 24 million pounds in a market where annual demand is 180 million pounds is a game changer. This new source of demand has greatly impacted both the spot and term market.

The spot price recently hit \$40/lb as SRUFF continues to accumulate millions of pounds of uranium.



**Uranium Oxide, U3O8**  
**100,000 Lbs for mid-month BT**

Live U3O8	Bid Loc	Bid \$/lbs	Indic \$/lbs	Change \$/lbs	Ask \$/lbs	Ask Loc
Sep-21	ANY	39.50	40.07	▲ 1.06	40.50	IND
Oct-21	ANY	39.50	40.13	▲ 1.09	40.50	CMO
Nov-21	IND	39.25	40.18	▲ 1.07	40.60	IND
Dec-21	IND	39.25	40.24	▲ 1.07	40.60	IND
Jan-22			40.31	▲ 1.08		
Feb-22			40.39	▲ 1.06		
Mar-22			40.47	▲ 1.06		
Apr-22			40.55	▲ 1.06		
May-22			40.64	▲ 1.06		
Jun-22			40.71	▲ 1.06		
Jul-22			40.83	▲ 1.06		
Aug-22			40.95	▲ 1.07		
Sep-22			41.06	▲ 1.07		
Oct-22			41.20	▲ 1.07		
Nov-22			41.33	▲ 1.08		
Dec-22			41.46	▲ 1.07		
Jan-23			41.59	▲ 1.07		

**Curve delivery at CMO. CMO = CVD 0 c/Lb, CMO = CMX 0c/Lb**

Source: [Numerco](#)

## The Outlook

There is a squeeze of epic proportions brewing in the uranium market. One can think of the situation as a short squeeze. The power companies need uranium and they are effectively short physical uranium. SRUUF is accumulating millions of pounds forcing the price higher. This is effectively a squeeze of one of the world's most important commodities.



Currently, shares trade at a 7.97% premium to the net asset value. As long as there is a premium, SRUFF will be buying uranium in the spot market.

Right now there is a viscous feedback loop. As the uranium price rises, more speculators buy SRUUF and the spot prices rise.

What happens when the market can no longer supply pounds of uranium at spot prices? Will the utilities scramble and be forced to buy at much higher prices? Utility companies have painful memories of the last squeeze where uranium prices increased from \$8/lb to \$140/lb. They will not want to repeat the same dreadful experience.

## **Risks**

It is rare to come across speculations such as SRUUF. This speculation is unique because the upside is quite explosive while the downside is limited to about 20-25%. It is possible that SRUUF runs out of investor demand and the price of uranium quickly falls back to the trading range of the last five years. Of course there is always the risk of another Fukushima type accident. After the Fukushima accident, uranium prices fell from \$67/lb to \$20/lb.

Finally, consumers may pressure governments to intervene if power prices rise dramatically.

In most cases, the short-term risk is capped at around 25%. Over the long term, the price is supported by a favorable supply-demand imbalance that has been brewing for years.

## **The Upside**

Sprott did not spend the last couple of years fine-tuning an investment vehicle in order to turn a quick profit. I believe they are playing a multi-year game.

The company owns a portfolio of uranium companies. Higher uranium prices would certainly increase the value of that portfolio. Secondly, as a premier financing company for resource companies, increased interest in the uranium sector would result in more investment banking and M&A fees for uranium companies.

Currently the Sprott Physical Uranium Trust Fund primarily trades in Canada. It is expected that this vehicle will be listed in the U.S. in the first quarter of next year. This will open a new source of investor demand that could further boost prices.

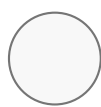
In the short term, this new vehicle should be able to boost the price of uranium to \$60/lb. In the long term, I think it is possible that uranium prices could hit prices over \$100/lb.

## **Final Thoughts**

The uranium price muddled along for half a decade. This, despite the fact that there was a significant supply-demand imbalance. The price of uranium was so low that major uranium companies suspended operations. The opaque industry made price discovery difficult. However, everything has changed in recent weeks. The Sprott Physical Uranium Trust Fund has acted as a much-needed catalyst to spark investor attention. This investment vehicle has acquired 24 million pounds in less than a month. For an industry that only produces 130 million pounds, this is an enormous demand shock. If SRUFF continues to remove millions of pounds of inventory from the spot market this could spark a squeeze that could make headlines in the coming months.

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This article was written by



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